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VELCRO INDUSTRIES LIMITED
ANNUAL REPORT 1969

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The World of Velcro

The cover design illustrates the new world-wide status of Velcro Industries Limited representing new horizons together with great market potential.

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VELCRO INDUSTRIES LIMITED
ANNUAL REPORT 1969

DIRECTORS

Andre L. Burnier
H. Roy Crabtree
C. Humphrey Cripps
H. Weir Davis, Q.C.
Clark Hartwell
Ralph B. Hood
Raymond B. Lank
George M. Mackintosh
Eric S. Morse

OFFICERS

Ralph B. Hood
Chairman of the Board
Clark Hartwell
President
Jack K. Mates
Vice President
David F. Gamrasni
Vice President
Laurent H. Girard
Vice President
Philip L. Belanger
Treasurer
H. Weir Davis, Q.C.
Secretary

AUDITORS

Touche Ross & Co.

**TRANSFER AGENTS
& REGISTRAR**

*Montreal Trust Company
Montreal, Toronto, Vancouver
U.S. Trust Company New York*

HEAD OFFICE

*400 Boulevard de Maisonneuve West
Montreal, Canada*

FINANCIAL HIGHLIGHTS

<u>Years Ended September 30</u>	<u>1969</u>	<u>1968</u>
Gross revenue from operations	\$ 11,682,149	\$ 9,106,921
Net income	3,442,580	2,583,337
Net per share	1.04	.79
Average number of shares outstanding	3,305,224	3,281,339

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS:



The fiscal year ended September 30, 1969 set new records for the Company. Gross revenue from operations increased 28%, net income 33%, and earnings per share 31.6%.

ACQUISITIONS. During the year we acquired two corporations: Velcro S.A. (a Swiss corporation in which we already held an interest of 19.75%) the owner and licensor of worldwide Velcro patents, and International Knitlok Corporation (which was negotiating with Velcro S.A.) a New York corporation owning a new concept for knitted forms of fasteners.

The total consideration for these acquisitions was 404,500 shares of capital stock of Velcro Industries Limited for assets having a net book value of \$1,328,462.

The acquisition and reorganization of Velcro S.A. is a major step forward both from the standpoint of future product potential, and of increased revenues. Velcro Industries Limited continues to be the largest producer of Velcro products and is now the licensor to all manufacturers of Velcro® Fasteners throughout the world. The technology acquired from International Knitlock will broaden our product field and enlarge the scope of our patent protection.

PLANT. All 101 looms are in production at the Manchester, New Hampshire plant which is operating with increasing efficiency.

The proposed expansion of the Canadian plant has been revised in view of the Company's recent execution of a joint manufacturing operation in India. The Company believes this arrangement will be able to serve our export markets at a lower product cost. This revision was also based on other favorable economic factors, and is in keeping with our expansion program.

Twenty-eight acres of land in

Wichita Falls, Texas have been acquired for a 180,000 square foot plant which is expected to be equal in capacity to the Manchester plant. This new facility is planned to be in operation by the end of 1972.

DIVERSIFICATION. Our subsidiary, American Velcro Inc., has completed negotiations with British Aircraft Corporation of Weybridge, England and is now a licensee for a new and exciting proprietary product which will be manufactured and marketed under the Velcro brand trademark. The product is a non-shattering, glassless mirror, that is lightweight, and non-tarnishing. Stretched over a frame, its optical qualities surpass those of conventional glass mirrors. Velcro® Fastening Tapes are the most effective means for attaching these mirrors in homes, architectural and display areas, transportation, and general industry.

Portable stressed membrane structures (SMS) have been designed and patented utilizing a unique concept of lightweight fabrics fastened to the entire framework by Velcro® Tapes. These structures, as large as 56 by 108 by 30 feet high, have been built and are under evaluation by military services throughout the world. It is also expected that these structures will have wide industrial and recreational applications.

RESEARCH AND DEVELOPMENT. Consistent with our policy of continuing research and development, we have now established another facility for product development in Huntington, New York to create high speed methods of attachments for Velcro products.

In addition, the services of Battelle Memorial Institute of Geneva, Switzerland have been contracted to conduct research and development directed toward new and untried

PRODUCTS, PEOPLE, FACILITIES . . . "OUR FUTURE IS UNLIMITED."

methods for manufacturing Velcro products. Arrangements have been made for the construction of a building in Geneva, under the management of Battelle, to house this new project.

We are very proud of our participation in the U.S. Space Program with our Astro-Velcro® Tape, a 'glamour product' developed by our Research and Development Center in Manchester. The performance characteristics of Astro-Velcro have recently been improved in shear and tensile strengths by over 200% assuring us of continued participation in Man's conquest of space.

A new and unique method has been developed for attaching Velcro® Tapes to clothing and fabrics by means of a special 'iron-on' adhesive backing. This new feature will soon be released to industry and to the consumer for home use.

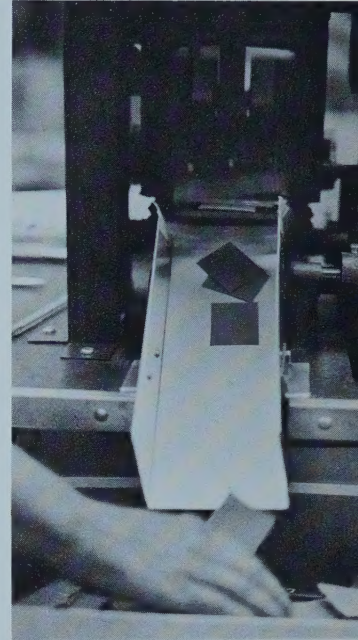
Our molded Velcro Tape is in sample production; we are now receiving orders for engineering and prototype evaluation from a selected group of industrial concerns. Fastening devices to facilitate attachment of the molded tape is now in the final stages of development.

PATENTS. Management continues to place major emphasis on our overall patent and trademark position. This protective coverage accounts for substantial expenditures out of revenue. Two of New York's leading patent firms, together with their international affiliates and associated firms, are being retained for the constant surveillance over, and protection of, our worldwide interests.

An infringement suit, including an accounting plus triple damages, has recently been filed against a California company which imports a product from Japan similar to that already adjudged to be illegal and in violation of our patents.



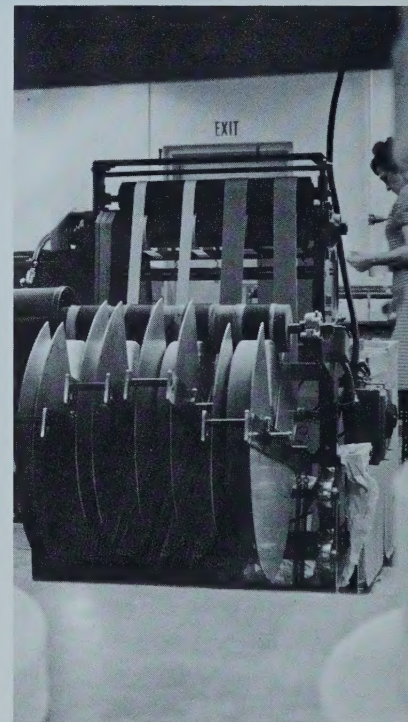
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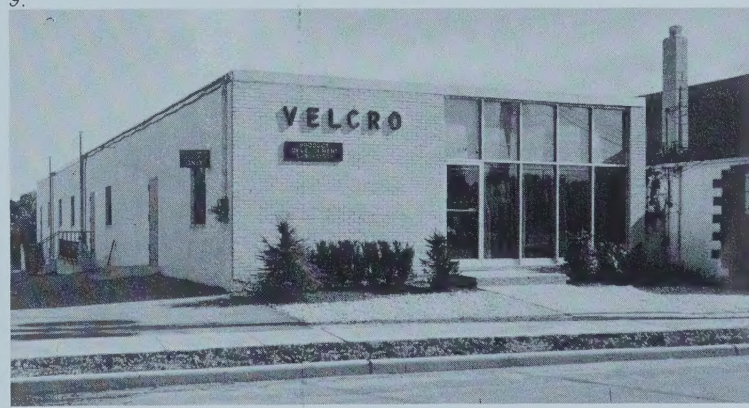
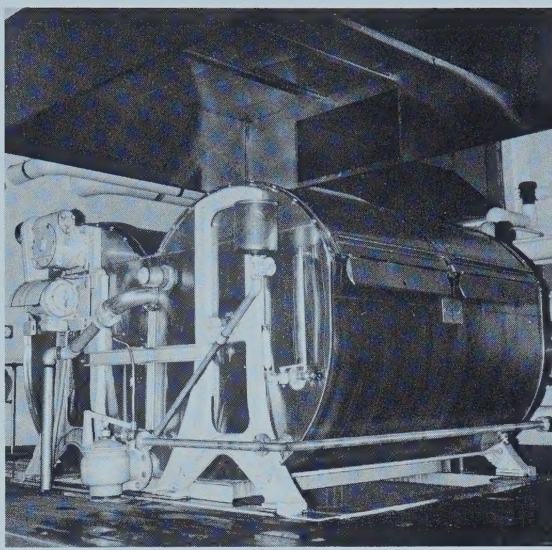


3.



4.

1. Color control
2. Custom die-cutting
3. Ready for the consumer
4. Precision cutting



- 5. Preparing to weave
- 6. Twin rotary dyer
- 7. Laboratory testing
- 8. Drawing yarn

- 9. Manchester, New Hampshire,
R & D Center
- 10. Product Development Laboratory,
Huntington, New York

With our recent acquisitions, we now own the rights to more than 300 patents in force, and over 300 patent applications filed and awaiting approval.

SUMMARY. This has been a most successful and eventful year.

With our ownership of worldwide rights, we have taken an important step toward a unified global operation which will provide advanced technology, greater sales and increasing revenues. Our future is now unlimited.

Another milestone has been our further expansion of manufacturing and research facilities here and abroad. We anticipate new and exciting products resulting from our research and development programs.

And for the first time, the Company is diversifying by the addition of new products outside the field of fasteners.

We are very pleased with the new records set for both sales and earnings this year. Your Directors and Management are looking toward the future with confidence that greater achievements and goals will be reached.

Our sincere thanks are extended to all employees of the Company, its subsidiaries and licensees who, by their efforts, have made this past year so rewarding and make the future so promising.

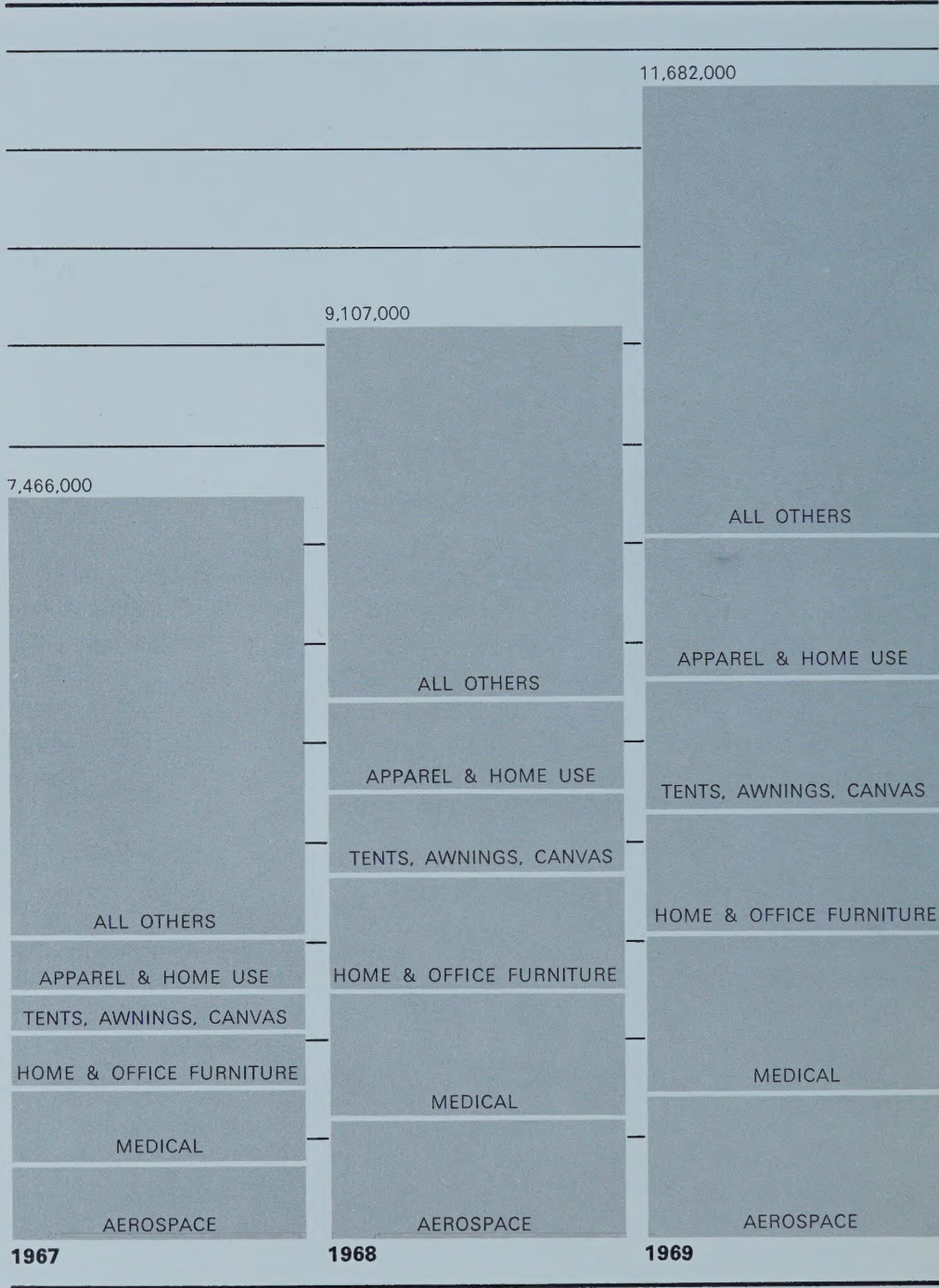
Submitted on behalf of the
Board of Directors

Clark Hartwell

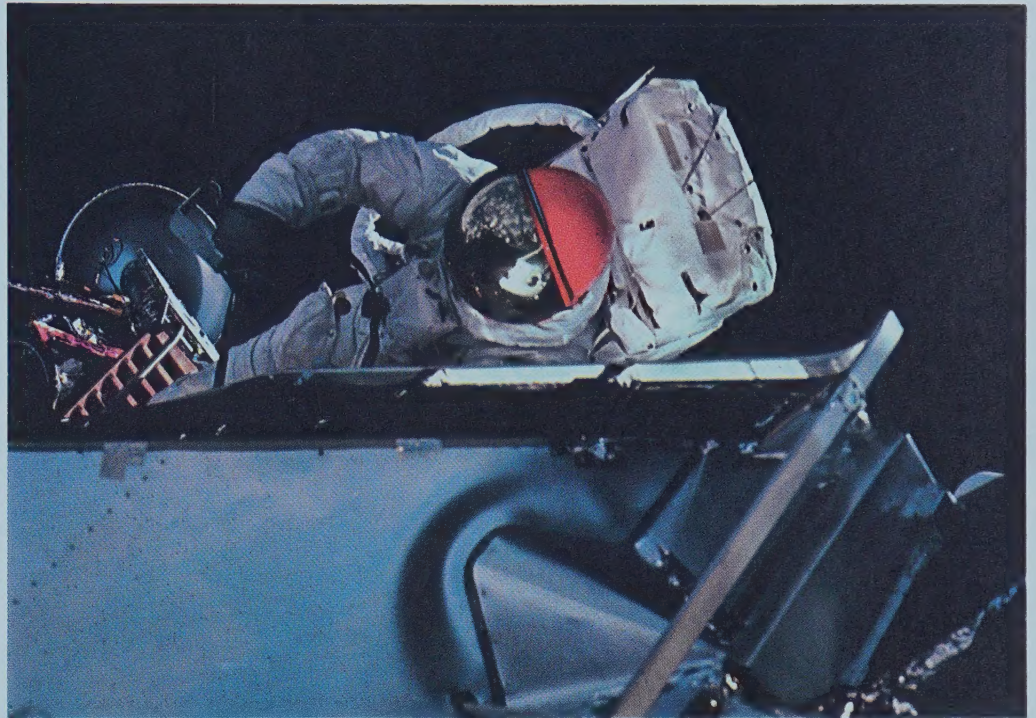
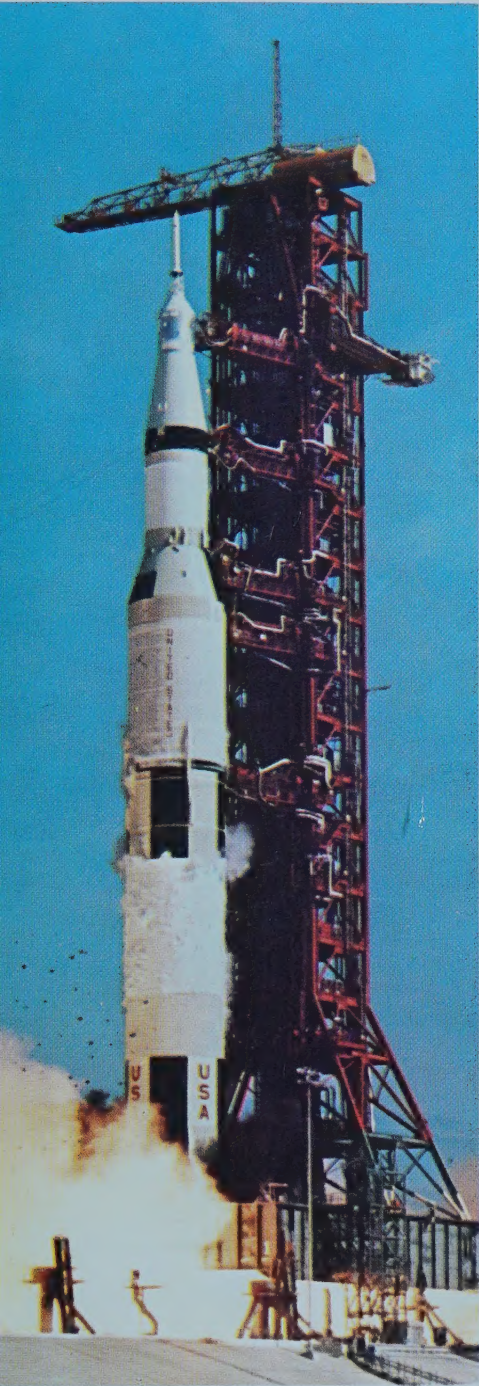
President

December 4, 1969

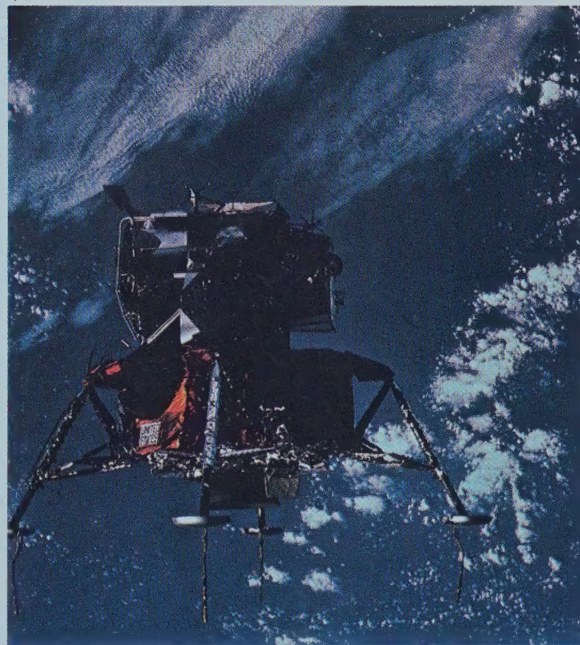
SALES COMPARISON (based on gross revenue)



THE FIRST MAN ON THE MOON!



1.



2.



3.

A quiet dawn, yellow sun, blue sky . . . the stillness of the air alive with tension. The magnificent Saturn 5 capped by an Apollo spacecraft was poised on the launch pad. With a shattering roar of ignition, the final seconds of the countdown began. Slowly, the giant missile reached for the sky as fire and vapor enveloped the launch pad. Man

was on his way to the moon! And when Neil Armstrong stepped down to the lunar surface, he brought to reality one of mankind's oldest dreams. With him came ASTRO-VELCRO®, MID-TEMP®, and HI-GARDE Velcro® Closures.

1. An astronaut stands in the open hatch of the Apollo command module. Strips of Astro-Velcro are clearly visible on his back pack.

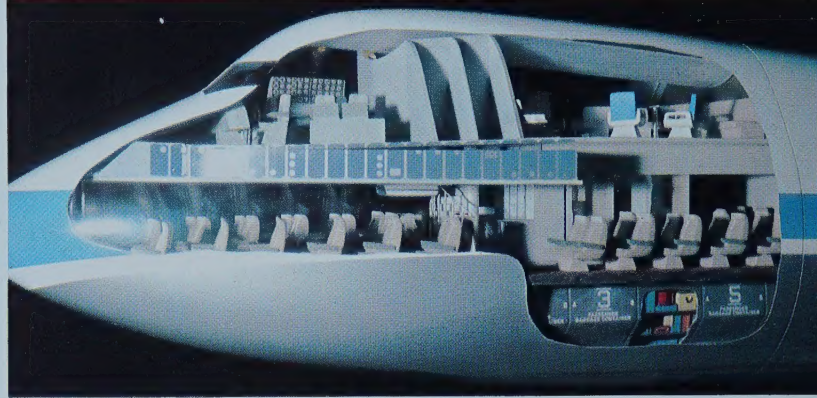
2. The Lunar module on its maiden voyage. The orange gold cover around the descent stage of the LM is super insulation attached by Mid-Temp and Hi-Garde Velcro Closures.

3. This historic picture vividly illustrates a dramatic application of Velcro materials. The astronaut's space suit is a totally self-contained environmental system . . . and it uses new flame-resistant Astro-Velcro Fasteners.

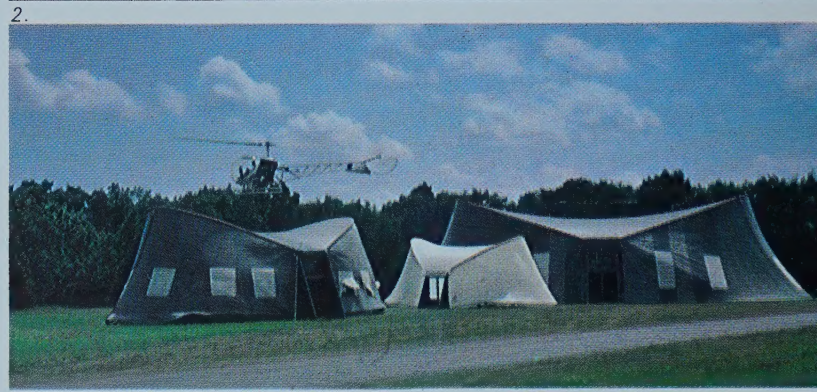
THE EXPANDING WORLD OF VELCRO . . .



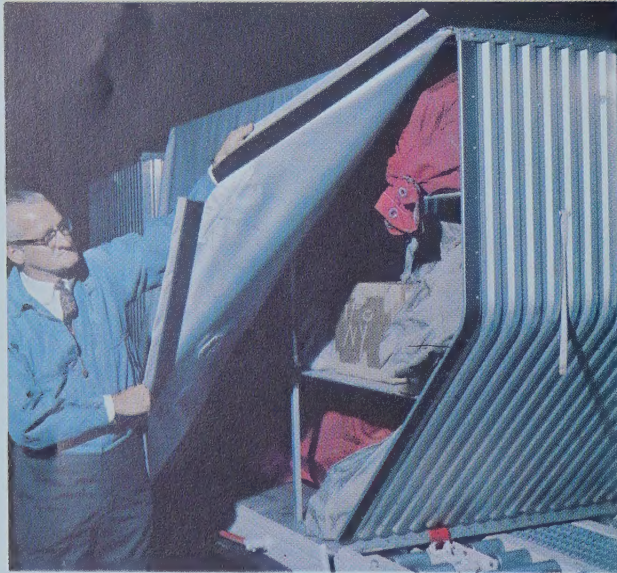
1.



2.



3.



4.



5.



6.

It's a fast-moving world—and Velcro products move with it! Every day, new applications are inspired by the enthusiasm, the creative thinking, generated by our customers. The result? Velcro brand Hook and Loop Tapes are used on thousands of products, in every type of industry, throughout the world.

1. Concealed Velcro® brand Hook and Loop Fastening Tapes insure the snug attachment of cushions and upholstery in the lush interior of Pan Am's new 747.

2. 747 in '70! Cut-away sections show stowage of cargo carriers and luxury seating efficiently secured or closed with Velcro Fasteners.

3. Velcro's unique SMS (Stressed Membrane Shell) is an advanced building concept for large prefabricated structures

with no interior supports. The specialized requirements of its flexible assembly make Polyester Velcro Tape a vital factor in the success of this design.

4. Luggage and cargo carrying is speeded with a specially designed Velstick® Fastener on Boeing's unique new cargo container units.

5. Armored military ammunition vests rely on Velcro Closures for quick fastening under extreme conditions.



10. The Pedi-Wrap Child Restrainer firmly holds the injured youngster with adjustable Velcro Tapes for emergency medical treatment.

7. Without pins or clips, Solo's Lockette Hair Rollers save time in hair setting. They are colorfully displayed and sold in leading department and variety stores.

8. Dynatone Electronics Corporation now features a thigh and arm reducing belt conveniently adjusted with Velcro

Fastening Tapes. A specialized conductive Velcro HI-MEG® Loop Fabric is utilized for electronic impulses.

9. Modern gym mats are grouped with Velcro Fastening Tapes for modular floor and wall coverage; are easily handled and stored.

10. One of the many medical uses for Velcro Tape: the cervical collar—adjustable and secure at all times.

11. The Velcro Method of Fastening is featured by Koret of California for skirts and Edmont for golf gloves.

12. The colorful Dritz retail counter dispenser with free brochures sells Velcro Hook and Loop Tapes to home sewers.

13. The Singer Company, long a leader in home sewing, utilizes Velcro Fastening Tapes to adhere pin cushions to their machines.

MORE FASCINATING AND CREATIVE USES . . .



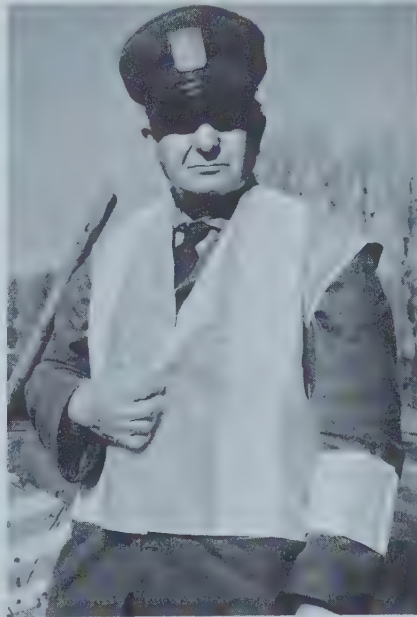
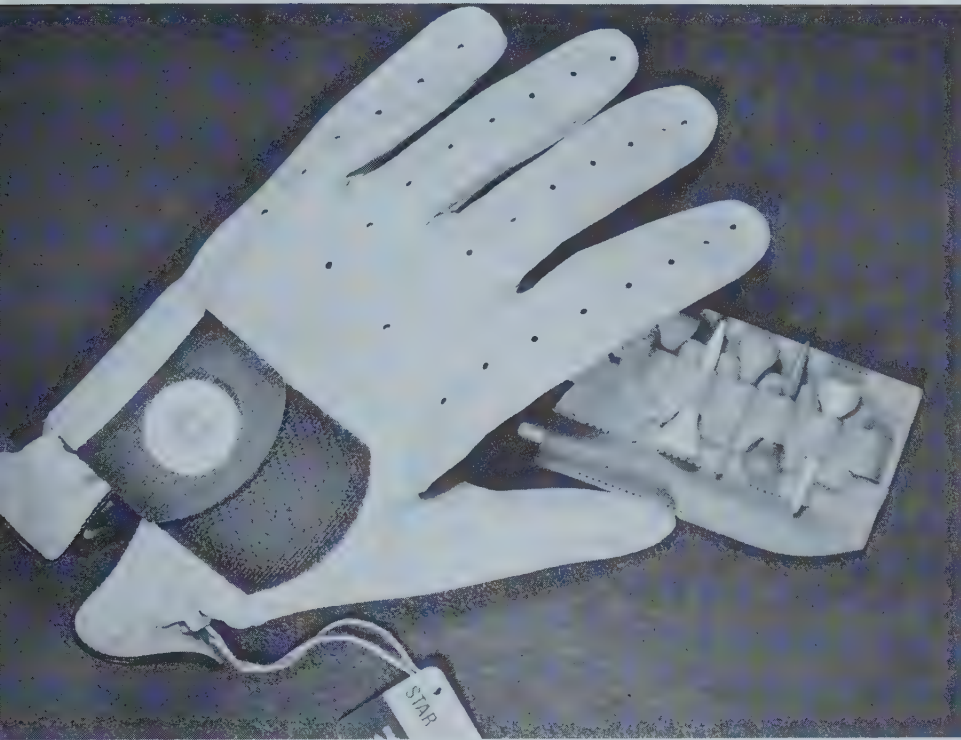
1. Rubbermaid Corporation's new color coordinated Patternique car carpet mats are held securely with Velcro Hook Tapes.

2. Panel-trac by Kirsch utilizes the Velstick® system for hanging colorful unpleated drapery panels.

3. Newly designed Werlin Safety Signs have been approved for use by many state and local governments. Messages are easily fastened and removed with color-matched Velcro Tapes.

4. Starcraft, one of the largest manufacturer's of campers, relies on Velstick and Velcro Tapes to attach canvas to doors and windows, hold shower curtains, store tables and attach carpeting.

FROM ABROAD, STILL MORE APPLICATIONS!



Around the World, Velcro Fasteners are 'catching on' in international markets . . . England's famous Stargrip golf gloves swing with Velcro Fasteners . . . in Japan, Velcro Tapes go into cases for Sony tape recorders . . . The policeman in Italy secures his armband and vest with Velcro brand Hook and

Loop Tape. And Volkswagen engineers specify it for securing their car carpeting . . . Velcro Fasteners are used by the French railways for safety, convenience and good housekeeping. Just before going to press we received photographs of these applications,

shown above, for last minute inclusion in the Report.

More products using Velcro are going on the world market every day, which proves that in any language, Velcro Fasteners mean better products for more customers.



VELCRO INDUSTRIES LIMITED and subsidiary companies

CONSOLIDATED BALANCE SHEET as at September 30, 1969 (with comparative figures for 1968)

ASSETS

	1969	1968
Current:		
Cash	\$ 824,505	\$ 667,258
Short term investments at cost		
which approximates market	2,041,552	1,233,640
Accounts receivable	2,847,919	2,123,892
Inventories, valued at cost which		
is less than net realizable value	2,501,317	1,403,763
Prepaid expenses	48,036	53,963
	<u>\$ 8,263,329</u>	<u>5,482,516</u>
 Fixed—at cost (note 5)		
Land, building, machinery and equipment	7,862,001	6,701,266
Less: Accumulated depreciation	810,493	595,856
	<u>7,051,508</u>	<u>6,105,410</u>
Construction in progress	151,991	—
	<u>7,203,499</u>	<u>6,105,410</u>
Patents and licences at cost	2,469,966	1,600,509
Less: Accumulated amortization	691,633	571,115
	<u>1,778,333</u>	<u>1,029,394</u>
 Other:		
Investments at cost		
(market value \$981,950)	699,997	210,512
Unamortized leasehold improvements	74,896	82,332
Deposits on machinery contracts	41,290	40,748
Special 5% refundable tax	20,996	33,326
	<u>837,179</u>	<u>366,918</u>
	<u><u>\$18,082,340</u></u>	<u><u>\$12,984,238</u></u>

On behalf of the Board:

Clark Hartwell, Director

Ralph B. Hood, Director

LIABILITIES

	1969	1968
Current:		
Accounts payable and accrued liabilities	\$ 852,430	\$ 634,809
Dividend payable October 1	101,622	98,569
Income taxes (note 4)	1,391,128	528,058
	<u>\$ 2,345,180</u>	<u>1,261,436</u>
Notes payable, bearing interest at 4% repayable \$200,000 at the end of each of the years 1973 through 1976	800,000	800,000

SHAREHOLDERS' EQUITY

Capital stock (notes 2 and 3):		
Authorized—		
10,000,000 Common shares of no par value		
Outstanding—		
3,694,420 shares (1968—3,285,650)	5,967,867	4,623,605
Retained earnings	8,969,293	6,299,197
	<u>14,937,160</u>	<u>10,922,802</u>
	<u>\$18,082,340</u>	<u>\$12,984,238</u>

The notes to consolidated financial statements are an integral part hereof.



VELCRO INDUSTRIES LIMITED and subsidiary companies

STATEMENT OF CONSOLIDATED EARNINGS AND RETAINED EARNINGS

for the year ended September 30, 1969 (with comparative figures for 1968)

	1969	1968
Gross revenue from operations.....	\$11,682,149	\$9,106,921
Costs and expenses except for the following items..	4,340,996	3,449,970
	<u>7,341,153</u>	<u>5,656,951</u>
Selling expenses	\$1,281,761	\$1,031,678
Administration expenses	932,771	745,082
Royalties paid	65,248	163,908
Depreciation of fixed assets	372,605	203,876
Amortization of licences	115,128	91,110
Interest	35,426	34,973
	<u>2,802,939</u>	<u>2,270,627</u>
	4,538,214	3,386,324
Other income		
Income from investments	158,716	94,087
Royalties earned	259,541	103,402
Other interest and miscellaneous income	105,422	58,916
	<u>523,679</u>	<u>256,405</u>
	5,061,893	3,642,729
Provision for taxes on income	1,619,313	1,059,392
Net earnings for the year	3,442,580	2,583,337
Retained earnings—October 1	6,299,197	4,109,715
	<u>9,741,777</u>	<u>6,693,052</u>
Deduct:		
Dividends	397,484	393,855
Provision for prior year's income taxes (note 4) . . .	375,000	—
	<u>772,484</u>	<u>393,855</u>
Retained earnings—September 30	<u>\$ 8,969,293</u>	<u>\$6,299,197</u>

The notes to consolidated financial statements are an integral part hereof.

VELCRO INDUSTRIES LIMITED and subsidiary companies

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the years ended September 30, 1969 and 1968

	<u>1969</u>	<u>1968</u>
Funds provided by:		
Net earnings for the year	\$3,442,580	\$2,583,337
Charges to earnings not involving disbursement of funds—		
Depreciation of fixed assets	372,605	203,876
Amortization of patents and licences	115,128	91,110
Amortization of leasehold improvements	11,212	26,528
Exercise of stock options	<u>15,799</u>	<u>79,070</u>
	\$3,957,324	2,983,921
Funds applied to:		
Construction and acquisition of capital assets	1,476,515	1,719,860
Acquisition of other assets—net	470,261	71,848
Payments of dividends	397,484	393,855
Acquisition of patents and licences—net	869,457	—
Provision for income taxes (U.S.)	<u>375,000</u>	<u>—</u>
	3,588,717	2,185,563
Less: Capital stock issued for shares of companies acquired	<u>1,328,462</u>	<u>—</u>
Increase in working capital	<u>\$1,697,069</u>	<u>\$ 798,358</u>

AUDITORS' REPORT

To the Shareholders,
Velcro Industries Limited.

We have examined the consolidated balance sheet of Velcro Industries Limited and subsidiary companies as at September 30, 1969 and the related statements of consolidated earnings and retained earnings and of source and application of funds for the year then ended. For Velcro Industries Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept, for pur-

poses of consolidation, the reports of the other auditors.

In our opinion, based upon our examination and the reports of the other auditors referred to above, these consolidated financial statements present fairly the consolidated financial position of the companies as at September 30, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Que.
December 4, 1969

TOUCHE ROSS & CO.
Chartered Accountants.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS September 30, 1969

1. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, from the date of incorporation or acquisition. During the year the Company acquired all the outstanding shares of Velcro S.A. and of International Knitlock Corporation (see note 2).

Canadian and U.S. dollars have been treated as equal at par of exchange throughout these statements except where funds have actually been converted from one currency to another, in which case the actual exchange realized has been recorded in the accounts.

2. In accordance with the terms of agreements dated April 11 and May 24, 1969 respectively, the Company acquired the balance of the outstanding shares of Velcro S.A. (a Swiss corporation) as of January 1, 1969 and all of the shares of International Knitlock Corporation (a New York corporation) as of September 30, 1969. The portion of the total net asset value of the Companies thus acquired was \$1,328,462 in consideration of which the Company issued 404,500 shares of its capital stock. The quoted market price of Company shares on the Montreal Stock Exchange was \$47.00 on January 1, 1969 and \$43.00 on September 30, 1969. The accounts of Velcro S.A. have been consolidated from January 1, 1969, while the balance sheet of International Knitlock Corporation has been consolidated as at September 30, 1969.

3. In accordance with the provisions of the 1965 Stock Option Plan, options were granted to senior employees to purchase 2,400 common shares of the Company at \$47.50 per share exercisable on or before January 23, 1974. Option prices were approximately the market price of the Company's shares on the days they were granted and option transactions during the year are summarized as follows:

Exercisable to	Option price per share	Outstanding at Sept. 30, 1968	Granted during year	Exercised during year	Outstanding at Sept. 30, 1969
Jan. 28, 1970	\$ 3.70	6,350	—	4,270	2,080
Jan. 18, 1971	10.50	65,500	—	—	65,500
Nov. 16, 1971	34.00	7,500	—	—	7,500
May 23, 1973	59.00	500	—	—	500
Jan. 23, 1974	47.50	—	2,400	—	2,400
		<u>79,850</u>	<u>2,400</u>	<u>4,270</u>	<u>77,980</u>

4. Canadian income taxes have been assessed up to the year ended September 30, 1965 and issues raised have been settled with the tax authorities and taxes paid as required.

U. S. income taxes have been examined up to

September 30, 1968 and all issues raised and taxes thereon provided for except for certain deficiencies relating to royalty payments for the years ended September 30, 1965 through 1968, which a subsidiary is protesting. Discussions are still in progress and no solution has as yet been reached on these matters. Management believes the contention of the U. S. tax authorities to be erroneous but on the advice of Counsel has reserved \$750,000 to cover the contingent liability which may arise therefrom. Of this amount, \$375,000 has been charged to retained earnings during the current year, while \$375,000 was charged to retained earnings in 1967.

Because of the contention of the U.S. tax authorities, it has been deemed advisable for the Company to lodge an objection with the Canadian tax authorities relating to such contentions in order to protect its position with regard to double taxation as provided for in the Canada—U. S. Reciprocal Tax Convention.

Taxes on income earned by subsidiaries in various other countries have been accrued and are being paid in accordance with the tax laws of each such country.

5. Fixed assets are valued at cost and comprise the following:

	1969		1968	
	Cost	Acc. Dep.	Net	Net
Buildings and equipment	\$3,244,233	\$176,751	\$3,067,482	\$2,918,324
Machinery and equipment	4,018,897	576,447	3,442,450	2,782,241
Office furniture and equipment	198,489	51,326	147,163	129,383
Land and improvements	400,382	5,969	394,413	275,462
	<u>\$7,862,001</u>	<u>\$810,493</u>	<u>\$7,051,508</u>	<u>\$6,105,410</u>

It is the policy of the Company and its subsidiaries to charge depreciation in the accounts at the maximum normal rates allowed by the taxation authorities of the country in which the assets are located.

6. Commitments:

As at September 30, 1969, the Company or its subsidiaries were committed under purchase orders and contracts for the following:

- (a) \$74,000 in connection with the purchase of machinery and equipment against which there is a deposit of \$33,000; and
- (b) \$47,500 per annum for rental of office space for eight years.

7. The total remuneration paid for the year to directors, as officers of the Company and its subsidiaries, amounted to \$137,286 (1968—\$133,053), which amount includes \$10,100 paid as directors' fees during 1969 (nil in 1968).

